

Canadian Marconi Company

**Annual Report
March 31, 1976**

Directors

* **C.-E. Bélanger, C.A.**
Counsel
Bélanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

L.M. Daley
President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

* **S. Dobb, F.C.A.**
Assistant Managing Director
GEC-Marconi Electronics Limited
London, England

S.M. Finlayson
President
Canmar Investment Company Limited
Montreal, Canada

H. Hansard, Q.C.
Counsel
Ogilvy, Cope, Porteous, Montgomery,
Renault, Clarke & Kirkpatrick
Montreal, Canada

E.O. Herzfeld
Vice Chairman, Canadian Marconi Company
Associate Director
The General Electric Company Limited
London, England

** **H.J. Lang**
Chairman and Chief Executive Officer
Canron Limited
Montreal, Canada

J.E. Pateman, C.B.E., M.I.E.E.
Managing Director
Marconi-Elliott Avionic Systems Limited
London, England

I.D. Sinclair, Q.C.
Chairman and Chief Executive Officer
Canadian Pacific Limited
Montreal, Canada

R. Telford, C.B.E., F.I.E.E.
Director
The General Electric Company Limited
Managing Director
GEC-Marconi Electronics Limited
London, England

** Chairman Audit Committee
* Member Audit Committee

Officers

E.O. Herzfeld
Vice Chairman

L.M. Daley
President and Chief Executive Officer

W. Baillie
Senior Vice President, and Manager Products and Markets

P.E. Wheatley
Senior Vice President, and Chief Financial Officer and Treasurer

D.A. Beggs
Vice President and Comptroller

J.A. Howlett
Vice President, Organization and Personnel

C.W. Perry
Vice President, Corporate Affairs and Secretary

J.W. Dodds, Ph.D.
Vice President, Telecommunications Division

K.C.M. Glegg
Vice President, Avionics Division

G. Gorfinkel
Vice President, Marine and Land Communications Division

C. Filiatrault
Assistant Secretary

D.J. Smallwood
Assistant Treasurer

Head Office

2442 Trenton Avenue, Montreal, Quebec H3P 1Y9
Telephone: 341-7630

Registrar

Montreal Trust Company
Montreal, Canada

Transfer Agent

Canada Permanent Trust Company
600 Dorchester Boulevard West, Montreal, Canada H3B 1N6

Auditors

Price Waterhouse & Co.
Montreal, Canada

Financial Highlights

(in thousands of dollars, except as otherwise stated)

	Year ended March 31				
	1976	1975	1974	1973	1972
Sales and other revenues	\$58,288	\$50,827	\$42,144	\$56,688	\$57,508
Depreciation and amortization	1,033	1,026	1,090	1,312	1,739
Net income:					
before extraordinary items	4,005	3,350	2,041	1,708	782
after extraordinary items	4,005	3,350	2,041	11,708	660
Dividends	1,189	891	743	594	—
Shareholders' equity	40,173	37,027	34,568	33,270	22,156
Funds (Working Capital)	40,134	37,033	35,281	33,602	18,680
Number of shares (in thousands)	5,943	5,943	5,943	5,943	5,943
Per share data (in dollars)					
Net income					
before extraordinary items	0.67	0.56	0.34	0.29	0.13
after extraordinary items	0.67	0.56	0.34	1.97	0.11
Dividends	0.20	0.15	0.125	0.10	—
Shareholders' equity	6.76	6.23	5.82	5.60	3.73

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Directors' Report to Shareholders

Results for the Year

The year ended March 31, 1976, showed a further improvement in the Company's results. Total revenues were just over \$58 million, an increase of nearly 15% over the last fiscal year. Net income after taxes achieved a new record of \$4,005,000, or 67 cents per share, compared with \$3,350,000 or 56 cents per share last year.

All four operating divisions recorded improved profitability and virtually all of the increase in earnings was derived from operations. Although, on the average, our short-term investments were larger during the fiscal year just ended than in the previous year, the resulting income remained approximately the same, due to the generally lower interest yields prevailing throughout most of the period. Since the bulk of our surplus funds is invested in Canadian currency we are however now benefiting from the higher interest rates prevailing in our country.

Activities and Products

As shareholders are aware your Company's success is largely dependent on its ability to export the major part of its production. Over the last few years its average export value has been of the order of 70%. The markets into which we sell have in recent years spread across the globe and there is no undue reliance on any single market.

Our commercial digital microwave radio-relay communications system is gradually expanding its sales and it is gratifying to note that first time buyers are coming back with repeat orders and enquiries.

Good progress is being made on the computerized telex switching system for Téléglobe Canada (formerly Canadian Overseas Telecommunication Corporation) with a planned delivery date in the fiscal year 1976/1977.

Employment of Capital

As foreshadowed last year, we have, despite higher sales, succeeded in reducing our inventory substantially and this, coupled with the increased profit retention, has increased our cash and short-term investments from \$26 million at the end of the previous year to over \$32 million at March 31st, 1976. This compares with a figure for total

Canadian Marconi Company and Subsidiary Companies

Working Capital of just under \$40 million and an almost identical Shareholders' Equity, representing \$6.76 per share.

Considerable effort was devoted to identifying and studying opportunities for new investment which would enhance the business prospects of our Company. As yet we have nothing definite to report but a number of projects are under active consideration.

Dividend

Under the Canadian Government's Anti-Inflation Program introduced in October 1975 we are currently limited to the rate of dividend we were then paying. We had raised our dividend rate in June 1975 and are therefore able to continue at the same rate of 10 cents a half year for the present. A dividend of 10 cents per share has therefore been declared on May 27, 1976, payable on June 30, 1976, to shareholders of record as at June 9, 1976.

Management and Officers

During the year, Mr. R. MacLeod, Vice President, Special Services Division, retired after 30 years of service with the Company. Mr. D.A. Collins assumed responsibility for the management of the Special Services Division. In May, Mr. C. Filiatral, our Corporate Legal Counsel, was appointed Assistant Secretary and an officer of the Company.

Outlook

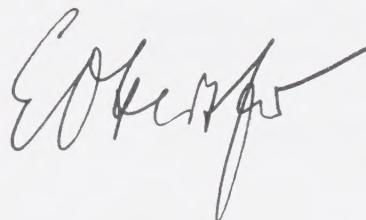
Order backlog, which had maintained a level of about \$40 million during most of the fiscal year, declined to below \$33 million in the last quarter, mainly as a result of heavy shipments towards the end of the year. We are in promising negotiations on a number of major export projects, any one of which, if awarded to us, would fully restore the order backlog.

The Anti-Inflation Program, to which we have already referred, restricts the continued recovery of profit margins on our domestic business but, as already mentioned, the major part of our sales is directed abroad.

Tribute to Staff

The directors wish to express their gratitude to our employees for the dedication and loyalty they have shown in enabling the Company to maintain its record of progress.

On behalf of the Board,



E.O. Herzfeld

Vice Chairman



L.M. Daley

President and
Chief Executive Officer

May 27, 1976
Montreal, Quebec

Consolidated Balance Sheet

Assets	March 31	
	1976	1975
	(in thousands)	
Current assets:		
Cash	\$ 2,588	\$ 2,499
Short-term investments, at cost, including accrued interest (approximates market)	29,823	23,686
Accounts receivable	7,675	8,408
Owing by associated companies	578	494
Inventories (Note 2)	10,790	13,209
Prepaid expenses	283	186
	<u>51,737</u>	<u>48,482</u>
Deferred accounts receivable	214	381
Fixed assets, at cost:		
Land and buildings	7,836	7,756
Machinery and equipment	10,722	10,366
Less: Accumulated depreciation	18,558	18,122
	<u>11,348</u>	<u>10,916</u>
	7,210	7,206
	<u><u>\$59,161</u></u>	<u><u>\$56,069</u></u>

Approved by the Board:

E. O. Herzfeld, *Director*
 L. M. Daley, *Director*

Liabilities and Shareholders' Equity	March 31	
	1976	1975
	(in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,471	\$ 9,769
Owing to associated companies	297	219
Income taxes	1,587	1,384
Sales and excise taxes payable	248	77
	<u>11,603</u>	<u>11,449</u>
Deferred income taxes	<u>1,053</u>	<u>1,178</u>
Long-term debt (Note 3):		
5 3/4% unsecured sinking fund debentures, Series A, due May 1, 1988	4,146	4,223
7% unsecured sinking fund debentures, Series B, due June 1, 1989	<u>2,186</u>	<u>2,192</u>
	<u>6,332</u>	<u>6,415</u>
Shareholders' equity:		
Capital stock:		
Authorized: 7,500,000 shares of \$1 each		
Issued: 5,943,192 shares	5,943	5,943
Contributed surplus	<u>4,273</u>	<u>4,273</u>
Retained earnings	<u>29,957</u>	<u>26,811</u>
	<u>40,173</u>	<u>37,027</u>
Contingent liability:		
Accounts receivable under leases discounted and repurchase agreements	<u>\$140,000</u>	
	<u>\$59,161</u>	<u>\$56,069</u>

Auditors' Report

To the Shareholders of Canadian Marconi Company

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at March 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse Co.

Chartered Accountants
Montreal, May 28, 1976

Consolidated Statement of Income

	Year ended March 31	
	1976	1975
	(in thousands)	
Revenue:		
Electronic products	\$56,154	\$48,764
Interest from short-term investments	2,134	2,063
	<u>58,288</u>	<u>50,827</u>
Expenses:		
Development, manufacturing, selling and administrative costs	50,027	43,549
Depreciation	1,033	1,026
Interest on long-term debt	393	402
	<u>51,453</u>	<u>44,977</u>
Income before income taxes	6,835	5,850
Provision for income taxes	<u>2,830</u>	<u>2,500</u>
Net income	<u><u>\$ 4,005</u></u>	<u><u>\$ 3,350</u></u>
Earnings per share	\$ 0.67	\$ 0.56

Consolidated Statement of Retained Earnings

	Year ended March 31	
	1976	1975
	(in thousands)	
Retained earnings, beginning of year		
\$26,811	\$24,352	
Refund of prior years' income taxes (Note 5)	330	—
Net income	<u>4,005</u>	<u>3,350</u>
	<u>31,146</u>	<u>27,702</u>
Dividends – 20 cents per share (1975 – 15 cents per share)	<u>1,189</u>	<u>891</u>
Retained earnings, end of year	<u><u>\$29,957</u></u>	<u><u>\$26,811</u></u>

**Consolidated Statement of Changes
in Financial Position**

	Year ended March 31	
	1976	1975
	(in thousands)	
Funds (working capital) were provided from :		
Operations –		
Net income	\$ 4,005	\$ 3,350
Depreciation	1,033	1,026
Deferred income taxes	(125)	(106)
	<hr/> 4,913	<hr/> 4,270
Proceeds from sale of fixed assets	134	134
Decrease in deferred accounts receivable	167	148
Refund of prior years' income taxes (Note 5)	330	<hr/> —
	<hr/> 5,544	<hr/> 4,552
Funds (working capital) were applied to:		
Additions to fixed assets	1,171	744
Reduction of long-term debt	83	1,165
Dividends	1,189	<hr/> 891
	<hr/> 2,443	<hr/> 2,800
Increase in funds	3,101	1,752
Funds, beginning of year	<hr/> 37,033	<hr/> 35,281
Funds, end of year	<hr/> \$40,134	<hr/> \$37,033

Notes to Consolidated Financial Statements – March 31, 1976

1. Summary of accounting policies :

(a) Principles of consolidation –

The consolidated financial statements include the accounts of Canadian Marconi Company and all its subsidiary companies which are Marconi Company, Inc., Kaar Electronics Corporation, Kaar Communications Corporation and Kaar Electronics Corporation of Canada Limited.

(b) Translation of foreign currencies –

Current assets and liabilities of Canadian Marconi Company, in foreign currencies, are translated into Canadian dollars at rates of exchange in effect as at the balance sheet date. Amounts entering into results of operations are translated at average rates.

Operating results, assets and liabilities of foreign subsidiaries are translated into Canadian dollars at rates of exchange in effect as at the balance sheet date.

Exchange profits and losses are included in net income.

(c) Inventories –

Work in process, raw materials and finished products are valued at the lower of cost and net realizable value. Deductions are made for progress payments received and any losses incurred or expected to be incurred on contracts not completed at the balance sheet date.

(d) Research and development expenditure –

Research and development expenditure is charged against income as incurred except where recoverable from current contracts in progress.

(e) Depreciation –

Depreciation is provided by using rates based on the estimated useful lives of the assets. Fixed assets retired or otherwise disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income.

(f) Income taxes –

The provision for income taxes includes deferred income tax charges and credits applicable to timing differences due to certain types of revenue and expense being recorded in the accounts in periods different from those in which they are reported for income tax purposes.

(g) Recognition of revenue –

Sales are normally recognized when products are delivered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total costs of completing the contracts.

2. Inventories :

Inventories are summarized as follows –

	1976	1975
	(in thousands)	
Work in process, less progress payments	\$ 4,687	\$ 6,171
Raw materials	3,031	3,756
Finished products	3,072	3,282
	<u>\$10,790</u>	<u>\$13,209</u>

3. Long-term debt :

Sinking fund provisions of the series A and B debentures require payments aggregating \$316,000 annually in the years 1976 to 1979 inclusive, and \$390,000 in the year 1980. Debentures have been purchased and surrendered for cancellation in full satisfaction of 1976 to 1978 inclusive, and in partial satisfaction of requirements of the years 1979 to 1982 inclusive. A gain of \$29,000 (1975 – \$253,000) arose out of the purchases made during the year and is included in income.

4. Remuneration of directors and officers :

	1976		1975	
	Number	Amount	Number	Amount
Directors	10		10	
Aggregate remuneration as directors		\$ 22,666		\$ 20,200
Officers	12		12	
Aggregate remuneration as officers		527,865		491,097
Number of officers who are also directors	2		2	

5. Refund of prior years' income taxes :

During the year, the Company received a refund of \$330,000 in respect of income taxes for the years 1968 and 1969. This amount has been credited to retained earnings.

6. Pension plan :

At March 31, 1976 there is an estimated unfunded liability in respect of past service in the pension plan amounting to \$1,142,000. This liability is to be funded by annual payments of no less than \$111,000 per annum until 1990.

7. Anti-Inflation program :

The Company is subject to the controls on prices, profits, compensation and dividends instituted by the Government of Canada in the Anti-Inflation Act effective October 14, 1975.

Operating Divisions

AVIONICS DIVISION

Development, manufacturing and marketing of various products:

- airborne systems including Doppler Navigation, Automatic Omega, Area Navigation, and aircraft instrumentation;
- ground-based systems including Satellite position location, TELEX exchange, TWX/TELEX conversion, and computer control systems;
- electronic components including printed wiring boards, microcircuits, transformers, coils, filters, and delay lines.

MARINE AND LAND COMMUNICATIONS DIVISION

Development, manufacturing, marketing and servicing of FM mobile two-way radio and base station equipment in the VHF and UHF frequency range, portable, mobile and fixed HF single sideband transceivers, marine radio telephones and marine radar. Marketing and servicing of portable radio telephones, marine navigation and fish-finding equipment, radio and television broadcast station equipment and electronic test instruments.

SPECIAL SERVICES DIVISION

Installation and maintenance of ground-based radar, communications, and air navigation systems; operation of defence communications and detection systems; repair and overhaul of radar, sonar, and communications equipment; repair and calibration of test equipment. Custom-built fabrication of fault alarm annunciators and master station alarm displays.

TELECOMMUNICATIONS DIVISION

Development, manufacturing and marketing of commercial and military land-based microwave communications systems including receiver-transmitters, pulse code modulation (PCM) multiplexers, telephone converters and associated special-to-type test equipment.



CANADIAN MARCONI COMPANY
FIRST NAME IN RADIO-ELECTRONICS

Canadian Marconi Company
2442 Trenton Avenue
Montreal, Quebec
H3P 1Y9

VIA
DORION-DIST.

The Globe & Mail
Financial Editor
Toronto, Ont.



1976
INTERIM REPORT

CANADIAN MARCONI COMPANY

AR29

SIX MONTHS ENDED
SEPTEMBER 30
(unaudited)
1976 1975
(in thousands)

CONSOLIDATED STATEMENT OF INCOME

REVENUE

Electronic products	\$25,305	\$26,374
Interest from short-term investments	1,465	955
	<u>\$26,770</u>	<u>\$27,329</u>

EXPENSES

Development, manufacturing, selling and administrative costs	\$25,700	\$23,423
Depreciation	494	448
Interest on long-term debt	195	197
	<u>\$26,389</u>	<u>\$24,068</u>

Income before income taxes	\$ 381	\$ 3,261
Provision for income taxes	<u>164</u>	<u>1,435</u>

NET INCOME	\$ 217	\$ 1,826
Earnings per share	<u>\$ 0.04</u>	<u>\$ 0.31</u>

CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITIONFUNDS (WORKING CAPITAL)
WERE PROVIDED FROM:

Operations —

Net income	\$ 217	\$ 1,826
Depreciation	494	448
Deferred income taxes	<u>(26)</u>	<u>—</u>
	<u>\$ 685</u>	<u>\$ 2,274</u>

Proceeds from sale of fixed assets	88	64
Decrease in deferred accounts receivable	49	108
Refund of prior years' income taxes	<u>—</u>	<u>329</u>
Total	<u>\$ 822</u>	<u>\$ 2,775</u>

FUNDS (WORKING CAPITAL)
WERE APPLIED TO:

Additions to fixed assets	\$ 627	\$ 600
Reduction of long-term debt	147	71
Dividends	<u>594</u>	<u>594</u>
Total	<u>\$ 1,368</u>	<u>\$ 1,265</u>

Increase / (Decrease) in funds	(\$ 546)	\$ 1,510
Funds, beginning of period	<u>40,134</u>	<u>37,033</u>
Funds, end of period	<u>\$39,588</u>	<u>\$38,543</u>

TO THE SHAREHOLDERS

In our press release dated August 12 concerning the Company's results for the first fiscal quarter, we referred to a large export order that had been obtained, subject to the fulfilment of a condition. The condition has not been fulfilled, and the contract has not, therefore, been recorded in order backlog as at September 30, which was just over \$33 million. This is approximately the same level as at the start of the current fiscal year.

Our continuing efforts to improve order backlog have been more costly than planned. We have also considered it prudent to make provisions against certain slow-moving inventories. In addition, inadequate profit margins resulting from the development of new product lines have continued longer than anticipated and have required more substantial remedial action.

Although we anticipate an improvement in earnings in the second half year, earnings for the full year will be substantially lower than last year.

The directors have declared a dividend of 10 cents per share payable on December 22, 1976, to shareholders of record as at December 8, 1976.

Montreal, Quebec
November 25, 1976

L.M. Daley
President and Chief Executive Officer